

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

SB 2290 - HB 2395

March 14, 2018

SUMMARY OF BILL: Requires an ordinance or resolution levying a real property tax increase in excess of the certified tax rate be passed at a minimum of two consecutive, regularly-scheduled local governing body meetings. Requires an ordinance or resolution levying a real property tax increase five percent or greater than the certified tax rate be passed at a minimum of two consecutive, regularly-scheduled local governing body meetings by a two-thirds vote. Authorizes a local governing body to pass a resolution or ordinance to call for a referendum on the question of a property tax rate increase of five percent or greater if the resolution or ordinance for levying such a tax does not pass by a two-thirds vote.

ESTIMATED FISCAL IMPACT:

Forgone Local Revenue – Exceeds \$500,000

Increase Local Expenditures – Exceeds \$15,000/Permissive

Other Fiscal Impact – To the extent a county adopts a budget and tax levy at such a time that would prevent two regularly-scheduled meetings prior to the issuance of property tax bills, the county may incur mandatory increases in local expenditures associated with special-called meetings estimated to exceed \$500 per meeting.*

Setting a maximum on property tax revenue may reclassify debt as limited-tax general obligation bond debt and result in mandatory increases in local debt expenditures. The timing of any bond issued and mandatory increase in any coupon rate cannot be reasonably determined.*

To the extent a property tax rate increase is not approved and local education agencies do not meet local match and maintenance of effort requirements, the Department of Education may withhold BEP funding from the district.

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Assumptions:

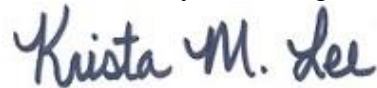
- Under current law, pursuant to Tenn. Code Ann. § 67-5-1702, a local governing body is authorized to adopt a resolution or ordinance levying a tax rate in excess of the certified tax rate after it holds a public hearing.
- This legislation would require all proposed property tax increases be adopted by resolution or ordinance at a minimum of two consecutive, regularly-scheduled meetings; requires ordinances or resolutions proposing property tax increases five percent or greater than the certified tax rate be passed by a two-thirds vote of the governing body at a minimum of two consecutive, regularly-scheduled meetings; and authorizes the local governing body to pass an ordinance or resolution by a majority vote to call for a referendum on the question of levying a tax five percent or greater than the certified tax rate when such resolutions or ordinances do not pass by a two-thirds majority.
- Based on information provided by the Comptroller of the Treasury (COT), and based on the frequency of meetings held by county legislative bodies and the date on which the county budget is passed, a special-called meeting may be required to comply with this legislation. The mandatory local expenditure for each meeting is estimated to exceed \$500.
- Based on information provided by the COT, the average number of local government property tax increases five percent or greater than the certified tax rate over the last five years is 15 per year.
- Any action taken by a local legislative body to call for a referendum on the question of levying a property tax five percent or greater than the certified tax rate is permissive.
- This analysis estimates local governing bodies will call for a referendum of at least one proposed tax increase that is five percent or greater per year not in conjunction with a regularly-scheduled primary or general election.
- The permissive recurring increase in local expenditures for conducting such a referendum will exceed \$15,000.
- The number of local governments that will increase property tax rates in the future by less than five percent as a direct result of this legislation, the number of local governments that would have otherwise increased rates by five percent or more in lieu of this legislation, the number of local governing bodies not voting by a two-thirds majority for a rate increase five percent or more, the number of local governing bodies calling for a referendum for a tax rate increases five percent or more, and the outcome of any referendum are unknown. As a result, determining a precise amount of forgone local government property tax revenue is difficult; however, such recurring forgone local revenue is reasonably estimated to exceed \$500,000 statewide.
- Based on information provided by COT, this legislation limits general obligation debt issued by local governments to be classified as limited-tax general obligation debt due to the debt being secured by a local government's property tax revenues subject to a maximum rate determined by voter approval. The limitation on the taxing power of local governments increases the risk of debt and could lead to increases in local expenditures for borrowing interest costs and reduction in accessibility to debt markets.
- The amount of any increase is dependent about the amount and timing of any bond issued and cannot be reasonably determined.

- Pursuant to Tenn. Code Ann. § 49-3-353, if a local school system does not meet local match funding requirements, the Commissioner of the Department of Education (DOE) is authorized to withhold a portion or all of the Tennessee Basic Education Program (BEP) funds that the system is otherwise eligible to receive.
- Based on information provided by the DOE, if a local education agency does not meet local match and maintenance of effort requirements, the department will withhold state BEP funding from the district.

**Article II, Section 24 of the Tennessee Constitution provides that: no law of general application shall impose increased expenditure requirements on cities or counties unless the General Assembly shall provide that the state share in the cost.*

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in blue ink that reads "Krista M. Lee". The signature is written in a cursive, flowing style.

Krista M. Lee, Executive Director

/amj